

DESCRIPTION OF PROPOSALS TO EXCLUDE
INTEREST FROM GROSS INCOME

Prepared for the Use of the

COMMITTEE ON FINANCE

By the Staff of the

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PROPOSALS TO EXCLUDE INTEREST INCOME FROM GROSS INCOME

Present law

Interest income is included in gross income. No special deductions, exclusions or credits are available to reduce the rate of taxation on this form of income. When a savings institution uses the term dividends to describe the income earned on a savings deposit, the income is considered as interest for tax purposes.

Gross income does not include up to \$100 (\$200 on a joint return) in dividends received by individuals from domestic corporations.

Proposed legislation

Each of the bills summarized in this section would exclude a portion of interest income from gross income.

In general, the proposals would apply to interest income received from interest-bearing deposits in commercial banks, mutual savings banks, savings and loan associations, building and loan associations, and credit unions that are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, the National Credit Union Administration Share Insurance Fund or insured otherwise in accordance with the requirements of the law of the State in which the bank is located.

1. Amendment 643 to H.R. 3919 (proposed by Senator Bentsen and cosponsored by Senators Talmadge, Boren, Baucus, Durenberger and 24 other Senators).

Interest received on savings deposits would be excluded from gross income. The exclusion would be \$100 in 1981, and would increase by an additional \$100 each year until the exclusion would become \$500 in 1985. The exclusion would be doubled for a joint return.

The amendment would apply to taxable years that begin after December 31, 1980.

2. Amendment 620 to H.R. 3919 (proposed by Senators Dole, Baker, Danforth and Javits); S. 1542 (introduced by Senator Percy has an identical purpose).

An individual would be permitted to exclude \$100 received as interest. An additional amount up to \$400 could be excluded from gross income, if the amount in interest earnings deposits of the taxpayer at the end of the taxable year would be greater by the amount of excluded interest than the amount in those deposits at the beginning of the taxable year. The amendment would be effective for taxable years that begin after December 31, 1979.

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Identical provisions would apply to dividends received from domestic corporations.

3. Amendment 630 to H.R. 3919 (proposed by Senator Eagleton); same as S. 1956.

Up to \$500 (\$1,000 on a joint return) of interest received by an individual would not be included in gross income.

The amendment would apply to taxable years that begin after December 31, 1980.

4. S. 1846 (proposed by Senator Talmadge).

Up to \$250 (\$500 on a joint return) of interest received from a deposit in banks would be excluded from gross income.

The amendment would apply to taxable years beginning after December 31, 1979.

Identical provisions would apply to dividends from domestic corporations.

5. S. 1964 (introduced by Senator Heinz).

The income tax would not apply to interest received from interest-bearing deposits in a bank, if the deposit is held by a trust established by an individual for himself or his beneficiaries and the interest income is retained in the trust fund.

The amendment would apply to a trust created or organized after September 1, 1979.

The same treatment would apply to retention of dividends and capital gains associated with shares of stock in the trust fund.

6. S. 1488 (introduced by Senator Nelson).

Up to \$100 (\$200 on a joint return) of interest income from savings deposits or withdrawable savings accounts would be excluded from gross income to the extent that the amount of interest received is greater than the amount of interest received in the preceding taxable year.

The amendment would apply to taxable years that begin after December 31, 1979.

7. Amendment 554 to S. 1488 (introduced by Senator Nelson)

Interest income up to \$500 (\$1,000 on a joint return) received by an individual on savings deposits or withdrawable savings

accounts would be excluded from gross income to the extent that the amount of interest received is greater than the amount of interest received in the preceding taxable year. Interest received on a money market certificate, or an account for which the rate of interest is negotiable, would not be eligible for the exclusion.

8. S. 1697 (introduced by Senator Weicker).

An individual may elect a tax credit up to \$250, or an exclusion from gross income up to \$1,000, for interest income received on savings in a residential finance institution, i.e., a bank or savings bank. In taking the tax credit, the individual would apply the amount of interest income received up to \$250, against tax liability.

The amendments would apply to taxable years that begin after December 31, 1979.

9. Possible amendment to H.R. 3919 (by Senator Levin).

The amendment would provide to an individual a 100-percent credit in 1981 of \$20 on interest income from a savings deposit (\$40 on a joint return). The amount of the credit would increase by \$5 in 1982 and 1983 until it would become \$30 for an individual and \$60 on a joint return.

The amendment would apply to taxable years beginning after December 31, 1980.

10. S. 1645 (introduced by Senator Hayakawa)

An individual would be allowed to claim a credit against tax liability up to \$2,500 (\$5,000 on a joint return) for interest income received from savings accounts. For AGI above \$20,000, the tax credit would be reduced by 5 percent of the excess over \$20,000, but not below \$1,000. The amounts of the credit and the AGI threshold for the phaseout would be indexed for the rise in the GNP implicit price deflator over the 1979 level for the deflator. Excess credits would be carried over to succeeding taxable years.

The amendments would apply to taxable years beginning after December 31, 1979.

Revenue estimate

The estimates of revenue loss in terms of calendar year tax liabilities and fiscal year budget receipts are shown in the table that follows.

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1. Amendment 643 (Senator Bentsen, et. al)

Calendar years	1,142	2,088	2,918	3,852	4,765	43,659
Fiscal years	171	1,441	2,494	3,487	4,194	39,579

2. Amendment 624 and S. 1542 (Senator (Senator Dole, et. al.)

a. Interest & dividends

Calendar years	3,335	3,550	3,778	4,016	4,543	51,038
Fiscal years	501	3,633	3,885	4,150	4,370	47,149

b. Interest

Calendar years	2,599	2,762	2,933	3,112	3,531	39,964
Fiscal years	390	2,831	3,020	3,220	3,457	36,940

c. Dividends

Calendar years	736	788	845	904	1,012	11,074
Fiscal years	111	862	865	930	913	10,209

3. Amendment 630 (Senator Eagleton)

Calendar years		2,683	2,857	3,043	3,452	36,205
Fiscal years		402	2,923	3,127	3,320	33,248

4. S. 1846 (Senator Talmadge)

Calendar years	2,047	2,149	2,257	2,369	2,612	29,078
Fiscal years	307	2,224	2,342	2,468	2,535	26,995

5. S. 1964 (Senator Heinz)

Estimates not available at present time.

7. Amendment 554 to S. 1488

Calendar years	1,150	1,230	1,313	1,398	1,576	17,708
Fiscal years	172	1,255	1,347	1,443	1,520	16,360

8. S. 1697 (Senator Weicker)

Calendar years	7,965	8,523	9,119	9,758	11,171	125,716
Fiscal years	1,195	8,688	9,341	10,043	10,715	115,924

9. Amendment of Senator Levin

Calendar years		1,001	1,302	1,648	1,817	18,039
Fiscal years		150	1,144	1,503	1,762	16,591

10. S. 1645 (Senator Hayakawa)

Calendar years	46,484	52,062	58,310	65,307	81,921	960,112
Fiscal years	6,973	51,225	57,841	65,307	76,435	869,879

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